

Message Text

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PAGE 01 COPENH 01297 031620Z
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FM AMEMBASSY COPENHAGEN
TO SECSTATE WASHDC 4065
INFO AMEMBASSY BONN
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AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARI
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY STOCKHOLM

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EO 11652: N/A
TAGS: EFIN, DA
SUBJECT: DANISH OFFICIAL DISCOUNT RATE REDUCED FROM TEN TO
NINE PERCENT

SUMMARY: EFFECTIVE MARCH 3, 1977, THE DANISH CENTRAL BANK
HAS REDUCED THE OFFICIAL DISCOUNT RATE FROM TEN PERCENT
TO NINE PERCENT. OFFICIAL RESERVES WERE STRENGTHENED BY
DANISH KRONER 807 MILLION (US \$129 MILLION) IN FEBRUARY.
THE DANISH KRONE SHOWS STABILITY IN FOREIGN EXCHANGE
MARKETS. BALANCE OF PAYMENTS FIGURES FOR 1976 SHOW NEW
RECORD DEFICIT OF DANISH KRONER 11.5 BILLION (US \$1,845
MILLION). END SUMMARY

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PAGE 02 COPENH 01297 031620Z

1. EFFECTIVE MARCH 3, 1977, THE DANISH CENTRAL BANK
REDUCED THE OFFICIAL DISCOUNT RATE FROM TEN TO NINE
PERCENT. THE STABLE DEVELOPMENT IN THE FOREIGN EXCHANGE
MARKETS AND A SUBDUED RATE OF PRICE INCREASES IN
DENMARK WERE THE MAJOR FACTORS BEHIND THE REDUCTION.
THE CENTRAL BANK EXPECTS THAT THE PRIVATE BANKS WILL
REDUCE THEIR INTEREST RATES ACCORDINGLY. THE PRESENT

DISCOUNT RATE OF NINE PERCENT IS STILL ABOVE THE AVERAGE OF DENMARK'S TRADE PARTNERS, BUT THE CENTRAL BANK STATES THAT THIS RELATIVELY HIGH LEVEL SHOULD BE MAINTAINED TO SUPPORT A STABILIZATION POLICY AIMED AT IMPROVING THE BALANCE OF PAYMENTS SITUATION IN THE YEARS TO COME.

2. THE OFFICIAL RESERVES WERE STRENGTHENED BY DANISH KRONER (DKR) 807 MILLION (US \$129 MILLION) IN FEBRUARY. CENTRAL BANK END-OF-MONTH BALANCES INDICATE THAT PUBLIC CAPITAL IMPORTS WERE THE PRIME FACTOR BEHIND THE INCREASE IN THE RESERVES. PUBLIC CAPITAL IMPORTS AMOUNTED TO AROUND DKR 970 MILLION (US \$155 MILLION) IN FORM OF FOREIGN LOAN TAKING. RESERVES NOW STAND AT DKR 7,797 MILLION, WHICH IS THE HIGHEST LEVEL TO DATE.

3. THE RELATIVELY STRONG DANISH KRONE POSITION IN THE SNAKE CONTINUED DURING THE MONTH OF FEBRUARY. ALTHOUGH THE KRONE FACED A MINOR SLIDE IN THE SNAKE AROUND THE MIDDLE OF THE MONTH, THE TOP POSITION WAS RECOVERED BY THE END OF FEBRUARY, REPORTEDLY CAUSED BY EXTENSIVE CAPITAL INFLOWS TO THE DANISH MARKET.

4. DANISH BALANCE OF PAYMENTS FIGURES FOR THE YEAR 1976 HAVE BEEN RELEASED SHOWING A NEW RECORD DEFICIT OF NOT LESS THAN DKR 11,530 MILLION (US \$1,845 MILLION). BEHIND THIS HUGE PAYMENTS DEFICITS (CLOSE TO FIVE PERCENT OF GNP) WAS A TRADE UNCLASSIFIED

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PAGE 03 COPENH 01297 031620Z

DEFICIT (FOB BASIS) OF MORE THAN DKR 17,000 MILLION (US \$2,720 MILLION) COMPARED TO DKR 7,555 MILLION (US \$1,209 MILLION) IN 1975. THE DEFICIT WAS FINANCED ALMOST ENTIRELY BY GOVERNMENT AND OTHER PUBLIC NET CAPITAL IMPORTS, WHICH AMOUNTED TO DKR 10,216 MILLION (US \$1,635 MILLION). IN THE FIRST THREE QUARTERS OF 1976, PRIVATE NET CAPITAL IMPORTS WERE IN THE RED. IN THE FOURTH QUARTER THE TREND REVERSED, AND PRIVATE NET CAPITAL IMPORTS FOR THE YEAR AMOUNTED TO DKR 2,477 MILLION (US \$396 MILLION). OTHER CAPITAL IMPORTS INCLUDING ERRORS WERE IN THE RED BY DKR 824 MILLION (US \$130 MILLION), AND THE INCREASE IN THE RESERVES OVER THE YEAR WAS DKR 339 MILLION (US \$54 MILLION).
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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